

# House Study Bill 256 - Introduced

HOUSE FILE \_\_\_\_\_

BY (PROPOSED COMMITTEE ON  
WAYS AND MEANS BILL BY  
CHAIRPERSON SANDS)

## A BILL FOR

1 An Act relating to state taxes and revenue by creating an  
2 alternative base income tax, modifying the state sales and  
3 use tax rates and the distribution of revenues from the  
4 natural resources and outdoor recreation trust fund, and  
5 including effective date and applicability provisions.  
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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DIVISION I

SALES AND USE TAXES

Section 1. Section 423.2, subsection 1, unnumbered paragraph 1, Code 2015, is amended to read as follows:

There is imposed a tax ~~of six percent~~ at the rate specified in subsection 13 upon the sales price of all sales of tangible personal property, consisting of goods, wares, or merchandise, sold at retail in the state to consumers or users except as otherwise provided in this subchapter.

Sec. 2. Section 423.2, subsections 2 and 3, Code 2015, are amended to read as follows:

2. A tax ~~of six percent~~ at the rate specified in subsection 13 is imposed upon the sales price of the sale or furnishing of gas, electricity, water, heat, pay television service, and communication service, including the sales price from such sales by any municipal corporation or joint water utility furnishing gas, electricity, water, heat, pay television service, and communication service to the public in its proprietary capacity, except as otherwise provided in this subchapter, when sold at retail in the state to consumers or users.

3. A tax ~~of six percent~~ at the rate specified in subsection 13 is imposed upon the sales price of all sales of tickets or admissions to places of amusement, fairs, and athletic events except those of elementary and secondary educational institutions. A tax ~~of six percent~~ at the rate specified in subsection 13 is imposed on the sales price of an entry fee or like charge imposed solely for the privilege of participating in an activity at a place of amusement, fair, or athletic event unless the sales price of tickets or admissions charges for observing the same activity are taxable under this subchapter. A tax ~~of six percent~~ at the rate specified in subsection 13 is imposed upon that part of private club membership fees or charges paid for the privilege of participating in any athletic sports provided club members.

1     Sec. 3. Section 423.2, subsection 4, paragraph a, Code 2015,  
2 is amended to read as follows:

3     a. ~~A tax of six percent~~ at the rate specified in subsection  
4 13 is imposed upon the sales price derived from the operation  
5 of all forms of amusement devices and games of skill, games of  
6 chance, raffles, and bingo games as defined in chapter 99B, and  
7 card game tournaments conducted under section 99B.7B, that are  
8 operated or conducted within the state, the tax to be collected  
9 from the operator in the same manner as for the collection of  
10 taxes upon the sales price of tickets or admission as provided  
11 in this section. Nothing in this subsection shall legalize any  
12 games of skill or chance or slot-operated devices which are now  
13 prohibited by law.

14     Sec. 4. Section 423.2, subsection 5, Code 2015, is amended  
15 to read as follows:

16     5. There is imposed a tax ~~of six percent~~ at the rate  
17 specified in subsection 13 upon the sales price from the  
18 furnishing of services as defined in section 423.1.

19     Sec. 5. Section 423.2, subsection 7, paragraph a,  
20 unnumbered paragraph 1, Code 2015, is amended to read as  
21 follows:

22     A tax ~~of six percent~~ at the rate specified in subsection 13  
23 is imposed upon the sales price from the sales, furnishing, or  
24 service of solid waste collection and disposal service.

25     Sec. 6. Section 423.2, subsection 8, paragraph a, Code 2015,  
26 is amended to read as follows:

27     a. ~~A tax of six percent~~ at the rate specified in subsection  
28 13 is imposed on the sales price from sales of bundled  
29 transactions. For the purposes of this subsection, a "*bundled*  
30 *transaction*" is the retail sale of two or more distinct and  
31 identifiable products, except real property and services to  
32 real property, which are sold for one nonitemized price. A  
33 "*bundled transaction*" does not include the sale of any products  
34 in which the sales price varies, or is negotiable, based on  
35 the selection by the purchaser of the products included in the

1 transaction.

2 Sec. 7. Section 423.2, subsection 9, Code 2015, is amended  
3 to read as follows:

4 9. A tax ~~of six percent~~ at the rate specified in  
5 subsection 13 is imposed upon the sales price from any mobile  
6 telecommunications service, including all paging services,  
7 that this state is allowed to tax pursuant to the provisions  
8 of the federal Mobile Telecommunications Sourcing Act, Pub.  
9 L. No. 106-252, 4 U.S.C. §116 et seq. For purposes of this  
10 subsection, taxes on mobile telecommunications service, as  
11 defined under the federal Mobile Telecommunications Sourcing  
12 Act that are deemed to be provided by the customer's home  
13 service provider, shall be paid to the taxing jurisdiction  
14 whose territorial limits encompass the customer's place of  
15 primary use, regardless of where the mobile telecommunications  
16 service originates, terminates, or passes through and  
17 shall in all other respects be taxed in conformity with  
18 the federal Mobile Telecommunications Sourcing Act. All  
19 other provisions of the federal Mobile Telecommunications  
20 Sourcing Act are adopted by the state of Iowa and incorporated  
21 into this subsection by reference. With respect to mobile  
22 telecommunications service under the federal Mobile  
23 Telecommunications Sourcing Act, the director shall, if  
24 requested, enter into agreements consistent with the provisions  
25 of the federal Act.

26 Sec. 8. Section 423.2, subsection 11, paragraph b,  
27 subparagraph (2), Code 2015, is amended to read as follows:

28 (2) Transfer from the remaining revenues the amounts  
29 required under Article VII, section 10, of the Constitution  
30 of the State of Iowa to the natural resources and outdoor  
31 recreation trust fund created in section 461.31, ~~if applicable~~.

32 Sec. 9. Section 423.2, subsection 13, Code 2015, is amended  
33 by striking the subsection and inserting in lieu thereof the  
34 following:

35 13. a. For the period beginning July 1, 2016, and ending

1 June 30, 2017, the sales tax rate is six and one-eighth  
2 percent.

3     *b.* For the period beginning July 1, 2017, and ending June  
4 30, 2018, the sales tax rate is six and two-eighths percent.

5     *c.* For the period beginning July 1, 2018, and ending  
6 December 31, 2029, the sales tax rate is six and three-eighths  
7 percent.

8     *d.* Beginning January 1, 2030, the sales tax rate is five and  
9 three-eighths percent.

10     Sec. 10. Section 423.5, subsection 1, unnumbered paragraph  
11 1, Code 2015, is amended to read as follows:

12     Except as provided in paragraph "*c*", an excise tax at the  
13 ~~rate of six percent~~ specified in subsection 5 of the purchase  
14 price or installed purchase price is imposed on the following:

15     Sec. 11. Section 423.5, subsection 5, Code 2015, is amended  
16 by striking the subsection and inserting in lieu thereof the  
17 following:

18     5. *a.* For the period beginning July 1, 2016, and ending  
19 June 30, 2017, the use tax rate is six and one-eighth percent.

20     *b.* For the period beginning July 1, 2017, and ending June  
21 30, 2018, the use tax rate is six and two-eighths percent.

22     *c.* For the period beginning July 1, 2018, and ending  
23 December 31, 2029, the use tax rate is six and three-eighths  
24 percent.

25     *d.* Beginning January 1, 2030, the use tax rate is five and  
26 three-eighths percent.

27     Sec. 12. Section 423.43, subsection 1, paragraph b, Code  
28 2015, is amended to read as follows:

29     *b.* Subsequent to the deposit into the general fund of the  
30 state ~~and after the transfer of such~~ pursuant to paragraph "*a*",  
31 the department shall do the following in the order prescribed:

32     (1) Transfer the revenues collected under chapter 423B, the  
33 department shall transfer one-sixth.

34     (2) (a) Transfer the applicable percentage as specified  
35 in subparagraph division (b) of such remaining revenues to the

1 secure an advanced vision for education fund created in section  
2 423F.2.

3     (b) (i) For the period beginning July 1, 2016, and ending  
4 June 30, 2017, the applicable percentage is sixteen and three  
5 thousand two hundred sixty-five ten-thousandths percent.

6     (ii) For the period beginning July 1, 2017, and ending June  
7 30, 2018, the applicable percentage is sixteen percent.

8     (iii) For the period beginning July 1, 2018, and ending  
9 December 31, 2029, the applicable percentage is fifteen and six  
10 thousand eight hundred sixty-three ten-thousandths percent.

11     (c) This paragraph subparagraph (2) is repealed December  
12 31, 2029.

13                                   DIVISION II

14             NATURAL RESOURCES AND OUTDOOR RECREATION TRUST FUND

15     Sec. 13. Section 461.32, subsection 1, Code 2015, is amended  
16 to read as follows:

17     1. A natural resources account is created in the trust fund.  
18 ~~Twenty-three~~ Fifteen percent of the moneys credited to the  
19 trust fund shall be allocated to the account.

20     Sec. 14. Section 461.33, subsection 1, Code 2015, is amended  
21 to read as follows:

22     1. A soil conservation and water protection account is  
23 created in the trust fund. ~~Twenty~~ Forty-five percent of the  
24 moneys credited to the trust fund shall be allocated to the  
25 account.

26     Sec. 15. Section 461.34, subsection 1, Code 2015, is amended  
27 to read as follows:

28     1. A watershed protection account is created in the trust  
29 fund. ~~Fourteen~~ Fifteen percent of the moneys credited to the  
30 trust fund shall be allocated to the account.

31     Sec. 16. Section 461.35, Code 2015, is amended to read as  
32 follows:

33     **461.35 Iowa resources enhancement and protection fund —**  
34 **allocation.**

35     ~~Thirteen~~ Nine percent of the moneys credited to the trust

1 fund shall be allocated to the Iowa resources enhancement  
2 and protection fund created in section 455A.18 for further  
3 allocation as provided in section 455A.19.

4 Sec. 17. Section 461.36, subsection 1, Code 2015, is amended  
5 to read as follows:

6 1. A local conservation partnership account is created in  
7 the trust fund. ~~Thirteen~~ Nine percent of the moneys credited  
8 to the trust fund shall be allocated to the account.

9 Sec. 18. Section 461.37, subsection 1, Code 2015, is amended  
10 to read as follows:

11 1. A trails account is created in the trust fund. ~~Ten~~  
12 Two percent of the moneys credited to the trust fund shall be  
13 allocated to the account.

14 Sec. 19. Section 461.38, subsection 1, Code 2015, is amended  
15 to read as follows:

16 1. A lake restoration account is created in the trust fund.  
17 ~~Seven~~ Five percent of the moneys credited to the trust fund  
18 shall be allocated to the account.

19 DIVISION III

20 ALTERNATIVE BASE INCOME TAX AND

21 ALTERNATIVE CUMULATIVE INCOME SURTAX

22 Sec. 20. Section 298.14, Code 2015, is amended to read as  
23 follows:

24 **298.14 School district income surtaxes.**

25 1. a. For each fiscal year, the cumulative total of the  
26 percents of surtax approved by the board of directors of a  
27 school district and collected by the department of revenue  
28 under sections 257.21, 257.29, and 298.2, and the enrichment  
29 surtax under section 442.15, Code 1989, and an income surtax  
30 collected by a political subdivision under chapter 422D, shall  
31 not exceed twenty percent.

32 b. Notwithstanding paragraph "a", or any other provision  
33 of law to the contrary, for a taxpayer who makes an election  
34 under section 422.5A, subsection 2, and who is subject to an  
35 income surtax as provided in section 257.21, 257.29, 298.2,

1 442.15, Code 1989, or chapter 422D, the appropriate governing  
2 body shall impose, and the department of revenue shall collect,  
3 an alternative cumulative income surtax from the taxpayer in an  
4 amount equal to one hundred twenty-eight percent of the amount  
5 generated by each surtax imposed on the taxpayer by the school  
6 district or political subdivision for the tax year in which the  
7 election is made.

8     2. A school district income surtax fund is created in the  
9 office of treasurer of state. Income surtaxes collected by  
10 the department of revenue under sections 257.21, 257.29, and  
11 298.2 and section 442.15, Code 1989, shall be deposited in the  
12 school district income surtax fund to the credit of each school  
13 district. A separate accounting of each surtax, by school  
14 district, shall be maintained.

15     3. The director of the department of administrative  
16 services shall draw warrants in payment of the surtaxes  
17 collected in each school district. Warrants shall be payable  
18 in two installments to be paid on approximately the first day  
19 of December and the first day of February following collection  
20 of the taxes and shall be delivered to the respective school  
21 districts.

22     Sec. 21. NEW SECTION. **422.5A Tax imposed — alternative**  
23 **base income tax.**

24     1. For purposes of this section, "*base income*" means the  
25 adjusted gross income before the net operating loss deduction  
26 as properly computed for federal income tax purposes under the  
27 Internal Revenue Code, with the following adjustments:

28     a. Subtract a standard deduction equal to six thousand two  
29 hundred thirty-five dollars for a married person who files  
30 separately or a single person or equal to twelve thousand four  
31 hundred seventy dollars for a married couple who files a joint  
32 return, a surviving spouse, or a head of household.

33     b. Subtract interest and dividends from federal securities.

34     c. Subtract, to the extent included, the amount of social  
35 security benefits taxable under section 86 of the Internal



1 Revenue Code.

2     *d.* (1) Subtract, to the extent included, all of the  
3 following:

4     (a) For a person who is disabled, or is fifty-five years of  
5 age or older, or is the surviving spouse of an individual or  
6 a survivor having an insurable interest in an individual who  
7 would have qualified for the exemption under this subsection  
8 for the tax year, the total amount of retirement income  
9 received by the taxpayer, up to a maximum of six thousand  
10 dollars for a person, other than a husband or wife, who files a  
11 separate state income tax return and up to a maximum of twelve  
12 thousand dollars for a husband and wife who file a joint state  
13 income tax return. However, a surviving spouse who is not  
14 disabled or fifty-five years of age or older can only exclude  
15 the amount of pension or retirement pay received as a result  
16 of the death of the other spouse. A husband and wife filing  
17 separate state income tax returns or separately on a combined  
18 state return are allowed a combined maximum exclusion under  
19 this paragraph of up to twelve thousand dollars. The twelve  
20 thousand dollar exclusion shall be allocated to the husband or  
21 wife in the proportion that each spouse's respective retirement  
22 pay received bears to total combined retirement pay received.

23     (b) Retirement pay received by a taxpayer from the federal  
24 government for military service performed in the armed forces,  
25 the armed forces military reserve, or national guard. This  
26 exclusion shall be in addition to the exclusion provided under  
27 subparagraph division (a).

28     (c) Amounts received as survivor benefits by a taxpayer from  
29 the federal government pursuant to 10 U.S.C. §1447, et seq.  
30 This exclusion shall be in addition to the exclusion provided  
31 under subparagraph division (a).

32     (2) This paragraph "*d*" is repealed January 1, 2023.

33     *e.* (1) For tax years beginning in the 2016 calendar year,  
34 subtract, to the extent included, twelve and one-half percent  
35 of the retirement income received by the taxpayer remaining

1 after the subtractions in paragraph "d".

2 (2) For tax years beginning in the 2017 calendar year,  
3 subtract, to the extent included, twenty-five percent of the  
4 retirement income received by the taxpayer remaining after the  
5 subtractions in paragraph "d".

6 (3) For tax years beginning in the 2018 calendar year,  
7 subtract, to the extent included, thirty-seven and one-half  
8 percent of the retirement income received by the taxpayer  
9 remaining after the subtractions in paragraph "d".

10 (4) For tax years beginning in the 2019 calendar year,  
11 subtract, to the extent included, fifty percent of the  
12 retirement income received by the taxpayer remaining after the  
13 subtractions in paragraph "d".

14 (5) For tax years beginning in the 2020 calendar year,  
15 subtract, to the extent included, sixty-two and one-half  
16 percent of the retirement income received by the taxpayer  
17 remaining after the subtractions in paragraph "d".

18 (6) For tax years beginning in the 2021 calendar year,  
19 subtract, to the extent included, seventy-five percent of the  
20 retirement income received by the taxpayer remaining after the  
21 subtractions in paragraph "d".

22 (7) For tax years beginning in the 2022 calendar year,  
23 subtract, to the extent included, eighty-seven and one-half  
24 percent of the retirement income received by the taxpayer  
25 remaining after the subtractions in paragraph "d".

26 (8) For tax years beginning on or after January 1, 2023,  
27 subtract, to the extent included, retirement income received  
28 by a taxpayer.

29 For purposes of this subsection, "*retirement income*" means a  
30 governmental or other pension or retirement pay, including but  
31 not limited to defined benefit or defined contribution plans,  
32 annuities, individual retirement accounts, plans maintained or  
33 contributed to by an employer, or maintained or contributed  
34 to by a self-employed person as an employer, and deferred  
35 compensation plans or any earnings attributable to the deferred

1 compensation plan.

2     2. Notwithstanding any other provision of law, a resident  
3 or nonresident may, in lieu of the taxes imposed under section  
4 422.5, elect to be subject to state income tax as imposed and  
5 computed pursuant to subsection 3. Such election must be made  
6 not later than the due date for filing the return for a taxable  
7 year, including extensions thereof, and under rules to be  
8 prescribed by the director.

9     3. *a.* A tax is imposed upon every resident and nonresident  
10 of the state making the election under subsection 2 which tax  
11 shall be levied, collected, and paid annually in an amount  
12 equal to the base income of the resident or nonresident times  
13 the applicable rate in paragraph "b".

14     *b.* (1) For tax years beginning in the 2016 calendar year,  
15 the rate is five and one-half percent.

16     (2) For tax years beginning in the 2017 calendar year, the  
17 rate is five and thirty-eight hundredths percent.

18     (3) For tax years beginning in the 2018 calendar year, the  
19 rate is five and one-quarter percent.

20     (4) For tax years beginning in the 2019 calendar year, the  
21 rate is five and thirteen hundredths percent.

22     (5) For tax years beginning on or after January 1, 2020, the  
23 rate is five percent.

24     4. Notwithstanding any other provision of law to the  
25 contrary, a resident or nonresident making the election  
26 under subsection 2 shall not be allowed any nonrefundable or  
27 refundable credit otherwise allowed under this division for the  
28 tax year for which the election is made, except for the credits  
29 for withheld tax and estimated tax paid under section 422.16.

30     5. A taxpayer making the election under subsection 2 shall  
31 be subject to an alternative cumulative income surtax as  
32 provided in section 298.14, if applicable.

33     6. *a.* The director shall determine for the 2017 calendar  
34 year and each subsequent calendar year the annual and  
35 cumulative standard deduction factors to be applied to tax

1 years beginning on or after January 1 of that calendar year.  
 2 The director shall compute the new dollar amounts of the  
 3 standard deductions specified in subsection 1, paragraph  
 4 "a", by the latest cumulative standard deduction factor and  
 5 round off the result to the nearest ten dollars. The annual  
 6 and cumulative standard deduction factors determined by the  
 7 director under this subsection are not rules as defined in  
 8 section 17A.2, subsection 11.

9     **b.** For purposes of this subsection and notwithstanding  
 10 section 422.4, subsection 2, paragraph "b", "*cumulative standard*  
 11 *deduction factor*" means the product of the annual standard  
 12 deduction factor for the 2017 calendar year and all annual  
 13 standard deduction factors for subsequent calendar years  
 14 as determined pursuant to this subsection. The cumulative  
 15 standard deduction factor applies to all tax years beginning  
 16 on or after January 1 of the calendar year for which the latest  
 17 annual standard deduction factor has been determined.

18     Sec. 22. Section 422.13, Code 2015, is amended by adding the  
 19 following new subsection:

20     NEW SUBSECTION. 1A. **a.** Notwithstanding subsection 1,  
 21 a resident or nonresident of this state who is at least  
 22 sixty-five years old on December 31 of the tax year and who  
 23 elects to be subject to the alternative base income tax in  
 24 subsection 422.5A, shall not be required to make and file a  
 25 return if the taxpayer's base income does not exceed thirty-two  
 26 thousand dollars in the case of married persons filing jointly  
 27 or filing separately on a combined return, heads of household,  
 28 and surviving spouses or twenty-four thousand dollars in the  
 29 case of all other persons. For purposes of this subsection,  
 30 "*base income*" means the same as defined in section 422.5A,  
 31 subsection 1, except that it includes all amounts of pensions  
 32 or other retirement income received from any source which is  
 33 not taxable under section 422.5A as a result of the exclusions  
 34 in section 422.5A, subsection 1, paragraphs "c" through "e", or  
 35 any other state law, but does not include military retirement

1 pay described in section 422.7, subsections 31A and 31B.

2     **b.** A taxpayer who is at least sixty-five years old on  
3 December 31 of the tax year and whose base income does not  
4 exceed the applicable amounts in paragraph "a" and who does  
5 not make and file a return pursuant to this section shall be  
6 deemed to have made the election required in section 422.5A,  
7 subsection 2.

8     Sec. 23. Section 422.13, subsection 2, Code 2015, is amended  
9 to read as follows:

10     2. For purposes of determining the requirement for filing  
11 a return under subsection 1 or 1A, the combined net income or  
12 base income, as the case may be, of a husband and wife from  
13 sources taxable under this division shall be considered.

14                                 DIVISION IV

15                         CONFORMING CHANGES RELATED TO DIVISION III

16     Sec. 24. Section 68A.102, subsection 21, Code 2015, is  
17 amended to read as follows:

18     21. "*State income tax liability*" means either the state  
19 individual income tax imposed under section 422.5, less the  
20 amounts of nonrefundable credits allowed under chapter 422,  
21 division II, or the alternative base income tax imposed under  
22 section 422.5A if applicable.

23     Sec. 25. Section 257.21, subsection 2, Code 2015, is amended  
24 to read as follows:

25     2. The instructional support income surtax shall be imposed  
26 on the state individual income tax for the calendar year during  
27 which the school's budget year begins, or for a taxpayer's  
28 fiscal year ending during the second half of that calendar year  
29 and after the date the board adopts a resolution to participate  
30 in the program or the first half of the succeeding calendar  
31 year, and shall be imposed on all individuals residing in the  
32 school district on the last day of the applicable tax year. As  
33 used in this section, "*state individual income tax*" means either  
34 the taxes computed under section 422.5, less the amounts of  
35 nonrefundable credits allowed under chapter 422, division II,

1 except for the Iowa taxpayers trust fund tax credit allowed  
2 under section 422.11E, or the tax computed under section 422.5A  
3 if applicable.

4 Sec. 26. Section 422.16, subsection 8, Code 2015, is amended  
5 to read as follows:

6 8. An employer or withholding agent shall be liable for  
7 the payment of the tax required to be deducted and withheld  
8 or the amount actually deducted, whichever is greater, under  
9 subsections 1 and 12 of this section; and any amount deducted  
10 and withheld as tax under subsections 1 and 12 of this section  
11 during any calendar year upon the wages of any employee,  
12 nonresident, or other person shall be allowed as a credit to  
13 the employee, nonresident, or other person against the tax  
14 imposed by section 422.5, or section 422.5A if applicable,  
15 irrespective of whether or not such tax has been, or will  
16 be, paid over by the employer or withholding agent to the  
17 department as provided by this chapter.

18 Sec. 27. Section 422.21, subsection 1, Code 2015, is amended  
19 to read as follows:

20 1. Returns shall be in the form the director prescribes,  
21 and shall be filed with the department on or before the last  
22 day of the fourth month after the expiration of the tax year.  
23 However, cooperative associations as defined in section 6072(d)  
24 of the Internal Revenue Code shall file their returns on or  
25 before the fifteenth day of the ninth month following the  
26 close of the taxable year and nonprofit corporations subject  
27 to the unrelated business income tax imposed by section  
28 422.33, subsection 1A, shall file their returns on or before  
29 the fifteenth day of the fifth month following the close of  
30 the taxable year. If, under the Internal Revenue Code, a  
31 corporation is required to file a return covering a tax period  
32 of less than twelve months, the state return shall be for the  
33 same period and is due forty-five days after the due date of  
34 the federal tax return, excluding any extension of time to  
35 file. In case of sickness, absence, or other disability, or

1 if good cause exists, the director may allow further time for  
2 filing returns. The director shall cause to be prepared blank  
3 forms for the returns and shall cause them to be distributed  
4 throughout the state and to be furnished upon application,  
5 but failure to receive or secure the form does not relieve  
6 the taxpayer from the obligation of making a return that is  
7 required. The department may as far as consistent with the  
8 Code draft income tax forms to conform to the income tax  
9 forms of the internal revenue department of the United States  
10 government. Each return by a taxpayer upon whom a tax is  
11 imposed by section 422.5 or 422.5A shall show the county of the  
12 residence of the taxpayer.

13 Sec. 28. Section 422D.2, Code 2015, is amended to read as  
14 follows:

15 **422D.2 Local income surtax.**

16 A county may impose by ordinance a local income surtax as  
17 provided in section 422D.1 at the rate set by the board of  
18 supervisors, of up to one percent, on the state individual  
19 income tax of each individual residing in the county at the  
20 end of the individual's applicable tax year. However, the  
21 cumulative total of the percents of income surtax imposed on  
22 any taxpayer in the county shall not exceed twenty percent,  
23 except as provided in section 298.14. The reason for imposing  
24 the surtax and the amount needed shall be set out in the  
25 ordinance. The surtax rate shall be set to raise only the  
26 amount needed. For purposes of this section, "*state individual*  
27 *income tax*" means the tax computed under section 422.5, less  
28 the amounts of nonrefundable credits allowed under chapter  
29 422, division II, except for the Iowa taxpayers trust fund tax  
30 credit allowed under section 422.11E, or the tax computed under  
31 section 422.5A if applicable.

32 **DIVISION V**

33 **IMPLEMENTATION**

34 Sec. 29. EFFECTIVE DATE. This Act takes effect January 1,  
35 2016.

1     Sec. 30. APPLICABILITY. Divisions III and IV of this Act  
2 apply to tax years beginning on or after January 1, 2016.

3                                     EXPLANATION

4             The inclusion of this explanation does not constitute agreement with  
5             the explanation's substance by the members of the general assembly.

6     This bill makes changes relating to state taxes and revenue  
7 by creating an alternative base income tax and modifying the  
8 state sales and use tax rates and the distribution of revenues  
9 from the natural resources and outdoor recreation trust fund.

10    DIVISION I — SALES AND USE TAXES. Division I relates to  
11 state sales and use taxes and to an amendment to the Iowa  
12 Constitution ratified on November 2, 2010, which created a  
13 natural resources and outdoor recreation trust fund (fund)  
14 and dedicated a portion of state revenues to the fund for  
15 the purposes of protecting and enhancing water quality and  
16 natural areas in the state including parks, trails, and fish  
17 and wildlife habitat, and conserving agricultural soils in  
18 the state (Article VII, section 10). The fund is codified in  
19 Code section 461.31. Pursuant to the amendment, the amount  
20 credited to the fund will be equal to the amount generated  
21 by an increase in the state sales tax rate occurring after  
22 the effective date of the constitutional amendment, but shall  
23 not exceed the amount that a state sales tax rate of 0.375  
24 percent would generate. The state sales tax rate has not  
25 been increased since the effective date of the constitutional  
26 amendment, so no amounts have been credited to the fund. The  
27 division increases the sales tax rate and the use tax rate  
28 from 6 percent to 6.125 percent on July 1, 2016, from 6.125  
29 percent to 6.25 percent on July 1, 2017, and from 6.25 percent  
30 to 6.375 percent on July 1, 2018. The division also amends the  
31 transfer of use tax revenues to the secure an advanced vision  
32 for education fund (SAVE) in Code section 423F.2 to ensure that  
33 SAVE receives approximately the same proportion of the total  
34 use tax revenue as it did prior to the use tax rate increases  
35 provided in the division.



1     DIVISION II — THE NATURAL RESOURCES AND OUTDOOR RECREATION  
2 TRUST FUND. Division II amends the distribution of moneys  
3 credited to the natural resources and outdoor recreation trust  
4 fund. Under current law, all moneys credited to the fund are  
5 allocated to seven different accounts within the fund to be  
6 used for the specified purposes of the account. The division  
7 modifies the allocation of those moneys to each account. The  
8 natural resources account is reduced from 23 percent of the  
9 total moneys to 15 percent; the soil conservation and water  
10 protection account is increased from 20 percent to 45 percent;  
11 the watershed protection account is increased from 14 percent  
12 to 15 percent; the Iowa resources enhancement and protection  
13 fund is reduced from 13 percent to 9 percent; the local  
14 conservation partnership account is reduced from 13 percent to  
15 9 percent; the trails account is reduced from 10 percent to 2  
16 percent; and the lake restoration account is reduced from 7  
17 percent to 5 percent.

18     DIVISION III — ALTERNATIVE BASE INCOME TAX. Division III  
19 relates to the computation and imposition of an alternative  
20 base income tax.

21     In lieu of the regular personal net income tax computed and  
22 imposed under Code section 422.5, a resident or nonresident  
23 individual may elect to be subject to an alternative base  
24 income tax as provided in the division. An election must be  
25 made not later than the due date for filing the return for  
26 a taxable year, including extensions, and under rules to be  
27 prescribed by the director.

28     The state income tax of a taxpayer making an election shall  
29 be an amount of tax equal to the taxpayer's base income times  
30 a specified rate. For tax years beginning in each of the  
31 calendar years 2016 through 2019, the rate is 5.50 percent,  
32 5.38 percent, 5.25 percent, and 5.13 percent, respectively.  
33 For tax years beginning on or after January 1, 2020, the rate  
34 is 5 percent.

35     "Base income" is defined as the taxpayer's adjusted gross

1 income before the net operating loss deduction as properly  
2 computed for federal income tax purposes, less a standard  
3 deduction of \$6,235 for a married person who files separately  
4 or a single person or \$12,470 for a married couple filing a  
5 joint return, a surviving spouse, or a head of household, less  
6 interest and dividends from federal securities, and less social  
7 security benefits and a certain amount of retirement income,  
8 which excluded amount of retirement income increases ratably  
9 each tax year in calendar years 2016 through 2022. Beginning  
10 in 2023, all retirement income is excluded from taxation under  
11 the alternative base income tax. The division indexes the  
12 standard deduction amounts for future inflation. A taxpayer  
13 shall not be allowed any nonrefundable or refundable tax credit  
14 for the tax year for which the election is made, except the  
15 credits for withheld tax and estimated tax paid under Code  
16 section 422.16.

17 Taxpayers who are 65 years of age or older who elect the  
18 alternative base income tax are not required to file an  
19 income tax return if base income does not exceed \$32,000 for  
20 a married person filing jointly or filing separately on a  
21 combined return, a head of household, or a surviving spouse,  
22 or \$24,000 for all other persons. For purposes of calculating  
23 base income for the filing threshold, taxpayers are required  
24 to add back any social security benefits or retirement income  
25 otherwise exempt under the bill except for military retirement  
26 pay. Taxpayers who meet these requirements and who do not file  
27 a tax return are deemed to have elected to be subject to the  
28 alternative base income tax.

29 If a taxpayer making an election is also subject to a local  
30 income surtax, that taxpayer is subject to a local income  
31 surtax rate that is 28 percent higher than the rate otherwise  
32 imposed by the school district or political subdivision.

33 DIVISION IV — CONFORMING CHANGES. Division IV relates to  
34 miscellaneous conforming changes relating to division III.

35 The division makes conforming changes to the definitions of

1 "state income tax liability" for purposes of the Iowa election  
2 campaign fund income tax checkoff in Code chapter 68A, and  
3 "state individual income tax" for purposes of the emergency  
4 medical services income surtax in Code chapter 422D, the  
5 instructional support income surtax in Code section 257.21,  
6 and, by reference, the educational improvement income surtax  
7 in Code section 257.29 and the physical plant and equipment  
8 income surtax in Code section 298.2, to include income tax  
9 computed and imposed under the alternative system in new Code  
10 section 422.5A. The division also amends Code sections 422.16  
11 and 422.21 to include references to new Code section 422.5A  
12 in provisions of those Code sections that reference the tax  
13 imposed under Code section 422.5.

14 DIVISION V — IMPLEMENTATION. Division V relates to  
15 implementation of the bill.

16 The division provides that the bill takes effect January  
17 1, 2016, and provides that divisions III and IV of the bill  
18 (relating to the creation of the alternative base income tax)  
19 apply to tax years beginning on or after January 1, 2016.